



October 22, 2003

The Board of County Commissioners  
Citizens of Craven County

It is our pleasure to submit this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of independent auditors.

Responsibility for the accuracy, completeness and fairness of the presentations, including all disclosures, rest with the County. We believe the data, as presented, is accurate in all material respects and fairly presents the County's financial position and results of operations. Furthermore, we believe that all notes and disclosures necessary to enable the reader to understand the County's financial activity have been included.

## **THE COUNTY**

Craven County, chartered in 1712, utilizes a Commissioner-Manager form of government with seven commissioners who serve four-year terms. The Chairperson is elected by the Commissioners each year for a one year term. The County Manager, County Attorney, and Clerk to the Board are appointed by, and serve at the pleasure of the County Commissioners. The County Manager is responsible for administering all affairs of the County and for management of all County employees.

Craven County is located midway along North Carolina's lace work coastal fringe and is diverse in its physical characteristics, demographics and economic base. The County's land area totals approximately 712 square miles or 455,680 acres. Settled in 1710 by Swiss and German immigrants at the confluence of the Trent and Neuse Rivers, New Bern, the county seat, is the second oldest town in the state. Rich in history, it is the site of North Carolina's Colonial Capitol and its first State Capitol. New Bern is also the Birthplace of Pepsi Cola, a drink first concocted by Caleb Bradham, a local pharmacist, in 1898. Downtown New Bern offers a number of museums, shops, galleries, restaurants, historic sites, waterfront hotels, bed and breakfast accommodations, marinas, convention center, parks, historic homes and churches. Tryon Palace Historic Sites & Gardens, the first permanent seat of colonial government in North Caro-

lina, offers visitors an opportunity to experience over 200 years of American history and acres of period inspired gardens.

The City of Havelock, the second largest municipality in Craven County, is home to Cherry Point, the world's largest Marine Corps Air Station, employing over 5,500 civilian workers. The Air Station is home of the 2<sup>nd</sup> Marine Aircraft Wing and sits on 13,164 acres of land in Craven County. The Naval Air Depot (NADEP), one of three U. S. Navy depots, sits on nearly 150 acres on board Marine Corps Air Station Cherry Point. NADEP is the largest industrial employer in eastern North Carolina. The base is also the location of Halyburton Naval Hospital.

In recent years the County has become less dependent on agriculture as the mainstay of the economic base and has revealed itself as a desirable destination for tourists, drawn by abundant opportunities for conventions, golf, sailing, beaches, fishing, hunting and touring over 150 historic landmarks. Directly related to Craven County's popularity as a tourist destination is the County's reputation as a desirable retirement community. This has resulted in a constant growth of residential development aimed at retirees.

The financial reporting entity includes all the funds of the primary government (Craven County), as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are reported in a separate column in the general purpose financial statements to emphasize that they are legally separate from the primary government and to distinguish their financial positions, results of operations, and cash flows from those of the primary government. The Craven Regional Airport Authority, Craven County Alcoholic Beverage Control Board, Craven County Tourism Development Authority and Craven Regional Medical Authority are included as discretely presented component units in the reporting entity. However, the Craven County Board of Education, the Craven-Pamlico-Carteret Regional Library, Eastern Carolina Council, Craven Community College, Craven County Economic Development Commission and the Coastal Regional Solid Waste Management Authority have not met the criteria for inclusion in the reporting entity as component units and, accordingly, the financial information for these organizations is excluded from this report. Each of these entities publishes its own annual financial report to which the reader is referred. For financial reporting purposes, transactions between The Craven County Finance Corporation and the County have been eliminated in order to more clearly reflect the substance of the underlying transactions. This Corporation was established by the County to assist in obtaining financing for a capital project and the only transactions of the Corporation relate to that project.

## **THE LOCAL ECONOMY**

Craven County continues to experience economic growth, as does the State of North Carolina. Per capita personal income in Craven County increased by 1 percent for the year 2001 (the latest information available). While the County's per capita income level remains below the state average, the level is above most other counties in the region. The County ranked twenty-third out of one hundred counties in the state in per capita income. The 1991-2001 average annual growth rate of per capital personal income was 4.5 percent, while the average annual growth rate for the state was 4.4 percent and 4.3 percent for the nation.

Government is the largest single employer in the County with 34 percent of all jobs, a decline from 37 percent in 1998. The U.S. Marine Corps Air Station at Cherry Point provides employment for a total work force of 14,337 personnel, including 5,793 civilian jobs. The number of civilian jobs at the Naval Aviation Depot at Cherry Point Marine Corps Air Station increased by 4.4 percent this year. The total payroll for the base in 2003, including the Naval Aviation Depot, is expected to be approximately \$780 million while the total economic impact of the Marine Corps Air Station at Cherry Point, including the depot, is estimated to be \$1,037 million for the state of North Carolina. Of this amount approximately 85

percent will be spent in Craven and the adjoining three counties. The military and the local community have developed a strong relationship from which both have benefited. After government, the other large employment categories in the County are services employment with 20.6 percent of the work force, retail and wholesale trade providing 19.6 percent, and manufacturing with 12.6 percent of the total work force.

In September 2003, the acting Secretary of the Navy announced that two F/A-18 Super Hornet squadrons would be stationed at the U. S. Marine Corps Air Station at Cherry Point. The Navy began the process of selecting sites for the basing of the new generation of fighter planes in July 2000. The two, 12-plane squadrons are expected to add about 2,300 military members, civilian workers and their families to the community. Admiral Robert Natter, former commander of the Navy's Atlantic Fleet said the two squadrons would mean an additional 1,200 jobs and \$40 million annually in economic impact. No precise timetable has been provided for the move but the Navy has indicated that all of the Super Hornets are scheduled to be in place at the chosen sites by 2010. The County has actively pursued the stationing of these planes at MCAS Cherry Point for several years.

The relatively low percentage of manufacturing employment has prevented the County from experiencing the high levels of unemployment compared to other areas of the state that are heavily dependent on the textile and furniture industries. Employment at most of the major manufacturing employers in the County, such as Moen, Amital Spinning, Maola, PCS Phosphate and Weyerhaeuser remained relatively constant during the past year. Employment levels declined at Hatteras Yachts and Chatsworth Products but were offset by increased employment at BSH Home Appliances. The unemployment rate increased during the past year from an unadjusted annual unemployment rate of 5.2 percent for calendar year 2001 to a rate of 5.8 percent for calendar year 2002. The statewide annual rate of unemployment for calendar year 2002 was 6.7 percent. The County's unemployment rate continues to be one of the lowest in the region and is expected to decrease further as BSH continues to expand.

BSH Home Appliances, a major manufacturer in the County, is expanding operations in the County to add additional product lines to its existing operation of manufacturing dishwashers. Products added will include cook tops, hoods, ranges and washer/dryers. BSH currently employs 670 employees (up from 450 the prior year) and has an investment of \$27 million in the County (up from \$16 million the prior year). Plans are to add \$150 million to their investment and 1,400 additional jobs over the next 5 years. Construction of the first phase of additional plant facilities, located adjacent to the current facility, began in January 2002 and was completed during the summer of 2003. Production of cooktops and ranges began in September 2003 with the laundry equipment production expected to begin in November 2003. The company will add another 120 employees to the 670 present number when the laundry production begins. The next phase of the planned expansion will be an addition to the existing dishwasher facility. Once the additions are completed, BSH will become the second largest taxpayer in the County (behind Weyerhaeuser) and the second largest employer (behind the Naval Aviation Depot at MCAS Cherry Point). The expansion of BSH was named as one of the top ten economic development deals of 2001 by Site Selection magazine.

In February 2003, Wirthwein AG of Creglingen, Germany broke ground for its new manufacturing facility to be located in the Craven County Industrial Park. The company will operate the subsidiary, Carolina Technical Plastics Corporation, to supply molded plastic parts for the home appliance manufacturing industry. The addition of new product lines by BSH Home Appliances was the primary reason for the choice of Craven County by Wirthwein, a major supplier to BSH for many years. The company expects to begin production in early 2004 at its \$11 million, 40,000 square foot facility and is expected to employ approximately 70 highly skilled workers.

With many historic sites and homes, 40 miles of navigable rivers, the Croatan National Forest, and abundant lakes and wildlife, the County continues to emphasize and capitalize on tourism. Tryon Palace, the first State Capitol, was authentically reconstructed in the 1950's and is considered the main attraction in the downtown historic district in the City of New Bern. The State of North Carolina has completed

demolition on the former Barbour Boatworks site. This site will become an education/visitor center for the Tryon Palace. The site is situated between the Palace and the Sheraton Hotel, near the Convention Center. The site will be an attractive addition to the waterfront development of downtown New Bern. The County appropriated \$85,000 in the fiscal 2004 budget to help fund this project.

Fiscal year 2003 was the third year of operation for the New Bern Riverfront Convention Center owned and operated by the County. The Center, located in historic downtown New Bern, was constructed at a cost of \$12 million. The facility is approximately 45,000 square feet and houses a 12,000 square foot ballroom designed to seat and serve groups up to 1,500. The site is adjacent to one of the major hotel facilities in the downtown area and within walking distance of two others and several bed and breakfast facilities. The Center incurred an operating deficit of \$191,000 in fiscal 2003, slightly less than budgeted. The Center was not built with the expectation that it would generate a direct profit but to provide an economic stimulus for the area. The Center generated approximately 14,000 overnight rooms and \$6.2 million of economic impact to the community. The occupancy tax directly generated by the Center in fiscal 2003 was \$70,000 and the local sales tax generated as a result of the Center was \$137,000. The debt incurred for the Center is serviced through the increase in occupancy tax enacted in November 1996 from 3 percent to 6 percent. Advance bookings of the Center for fiscal 2004 indicate a very successful upcoming year.

## **MAJOR INITIATIVES**

**For the Year.** The County's General Fund balance increased by \$1,295,000 (7.4%) this year. The County's unreserved General Fund balance at June 30, 2003, represents 17.4% of actual expenditures and transfers out for fiscal year 2003. The tax rate for fiscal 2003 was lowered by two cents to \$.58, per \$100 of property valuation. All property in the County was revalued as of January 1, 2002. Property values increased from \$4.5 billion to \$5.4 billion, or 20% countywide. The revenue neutral tax rate would have resulted in a reduction of 6.5 cents. The effective increase of 4.5 cents was to replace approximately \$2 million of revenues withheld by the State government and a \$500,000 increase in the County's portion of Medicaid expenditures.

Near the end of fiscal 2003 the Board of Commissioners voted to move \$2 million of general fund money into a capital reserve fund in anticipation of upcoming projects. Some of these projects include a new jail (discussed later), a \$2 million commitment to the Community College for a technology center building, and replacement of roofs at three public schools.

Actual expenditures for fiscal 2003 were approximately \$3.5 million below budget while revenues were only \$200,000 below budget.

During fiscal 2003, the Board of County Commissioners voted to enact the additional half-cent local sales tax, authorized by the legislature, effective January 1, 2003. The County received approximately \$1.2 million from this new half-cent resulting in an increase of the general fund balance for the year. In the future, these funds will be used to replace those reimbursement funds no longer provided by the State.

During the fiscal year, proceeds from the 2002, \$28 million general obligation bonds were used to begin construction of two elementary schools, auditoriums at two high schools and the replacement of roofs on five schools. These projects were all well underway at the end of the year and will be completed during fiscal 2004.

The development of the County recreation complex continued during the fiscal year with the development of the waterfront area. Docks and picnic shelters were constructed in the area adjacent to Brices Creek. Canoe rentals will be available from this site and a canoe trail has been designed.

The \$300,000 project to replace the slate portion of the roof on the historic County Courthouse was completed during the fiscal year. The slate roof replaced was the original roof on the courthouse constructed in 1883. This project was completed well under the original estimated cost of \$600,000.

Construction is nearing completion on the Community College classroom building and public library in Havelock along with the Institute of Aeronautical Technology facility. All three buildings are being constructed as one project. Funding for the Institute was provided by the State of North Carolina. The County is financing the \$4 million classroom and library with \$2 million of State Bond funds and \$2 million of County funds. The library will be a joint public/college facility and will replace a small aging library building currently in use in Havelock. The entire complex is constructed on land acquired from the Federal government adjacent to Marine Corps Air Station Cherry Point. The IAT, classroom and library are expected to receive students in January 2004. The Cove City branch of the public library relocated into their new building during the fiscal year. Formerly located in the Town Hall building, the library relocated to a building acquired by the County, which is four times the size of the former library.

The County implemented a centralized permitting system in 2003. This was accomplished by consolidating several departments, re-arranging personnel from other departments, and installing a new software system. The system allows data to be input once and shared by all users. Citizens desiring to obtain building permits now go to one location, whereas, previously it required trips to three departments in the County to obtain all the necessary permits.

**For the Future.** The budget for fiscal 2004 was adopted with a tax rate of \$.56 per hundred dollars of valuation, a two cent decrease from fiscal 2003. The decrease was due to the addition of the new half-cent sales tax that went into effect January 1, 2003. The new sales tax is budgeted to bring in revenue of \$2.7 million, more than replacing the \$2.1 million of revenue lost as a result of the actions of the State. Due to an estimated 4.7% increase over last years estimated property valuation, the County was able to budget for capital outlay, several new positions, and increase funding for the public schools and community college. These items had been delayed the past two years due to uncertainty with the State budget situation. Total budgeted expenditures and transfers for fiscal 2004 are \$76 million. Included in the budget is an appropriation of \$1.6 million to the capital reserve fund for upcoming projects (discussed earlier).

The County has plans to continue to improve its technological capabilities during the upcoming year by bringing the HTE software for the water department on line during the second half of fiscal 2004. Additionally, access to more information will be made available through the County's web site in the upcoming year. Plans to upgrade the system to allow GIS maps to be viewed on line are well underway and expected to be completed in the fall of 2003.

Upcoming plans for the water system include the continued study of alternate water sources and completion of a major upgrade to the system to ensure that water is available to all citizens in the County as soon as possible. The County was approved for a loan in the amount of \$1.6 million from the State Revolving Loan Fund to finance the upgrade of the system. The rate on this loan is 2.7% and the funds are to be used to add lines on roads in the northwest area of the County. The roads being added were not sufficiently populated to justify water lines at the time of the original construction of the system. This project is expected to be completed by the end of calendar 2003.

A plan to evaluate the Pee Dee aquifer as a supplement to the Black Creek aquifer will involve drilling test wells into the Pee Dee at present Black Creek well sites in order to evaluate the water quality and determine the ratio of Pee Dee water that can be blended with the Black Creek water and still not require treatment. It is expected that a ratio of approximately 30% Pee Dee water to 70% Black Creek water can be accomplished. If so this would allow the County to make the mandatory 25% reduction in the Black Creek by 2008 and be slightly short of the 50% reduction by 2013. The total investment required for this option would be approximately \$1.4 million but is significantly less than the cost of the \$10 million option of the Castle Hayne aquifer which would require a water treatment plant. The need for an alternate

water supply is a result of the upcoming capacity use rules, imposed by the State, limiting the volume of water that all users of the Black Creek aquifer may withdraw. The Black Creek aquifer is currently the single source of County water.

During fiscal 2003, the County engaged a consultant to do a feasibility study on the alternatives available to the County for the overcrowded conditions at the existing jail. The current jail was originally built in 1982 to house approximately 78 inmates and was then double bunked in areas to provide capacity for approximately 128 inmates. The average daily inmate population is now approximately 150. The work release center, constructed in 2001, has provided some relief but was not expected to be the ultimate answer to the problem. The work release center is limited to housing only sentenced nonviolent offenders and the majority of inmates held in the jail are awaiting trial and thus not eligible to be housed in the work release center. The results of the study show that the County could expect an average daily population of 187 by the year 2025 and that the current facility does not lend itself to expansion. The consultant has recommended that the County construct a 260 bed facility in several phases. This process will take up to three years to complete once a site has been located. The Board of Commissioners has instructed staff to solicit request for proposals to engage an architect and to begin the site location process.

The County is in the process of constructing a building to house a maintenance facility for the water department as well as the County garage. Currently the County is leasing space for the vehicle garage that provides service for the County fleet. The property, on which the building is being constructed, is owned by the water department. They will own the building and lease space to the vehicle garage operated by the County. The building is expected to be completed in early 2004.

Near the end of fiscal 2003 the County began an operational and financial review of United Senior Services, Inc. (USSI), a non-profit providing various services to the elderly population of the County. The County provided funds to USSI to assist them with their program (\$176,000 in fiscal 2003). USSI also administered the congregate and home delivered meals program in the County. Due to findings during the review the County chose to cease funding USSI in early fiscal 2004. The County assumed operation of the meal program and senior center program in September, 2003. It is the County's intention to find another non-profit organization to assume this program, or if this is not possible, to operate the program under the supervision of the Department of Social Services.

## **FINANCIAL INFORMATION**

The management of Craven County is responsible for establishing and maintaining an internal control structure designed to assure that the assets of the County are protected from loss, theft or misuse and to assure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

**Single audit.** As a recipient of federal and state financial assistance, the County also is responsible for assuring that an adequate internal control structure is in place to assure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management. As a part of the County's single audit, described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal and state financial assistance programs, and to determine that the County has complied with applicable laws and regulations. The results of the County's single audit for the fiscal year ended June 30, 2003, provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

**Budgeting controls.** In addition to the above mentioned internal control structure, the County maintains budgetary controls. The objective of these budgetary controls is to assure compliance with legal provisions embodied in the annual budget ordinance adopted by the Board of County Commissioners. Activities of the General Fund, Debt Service Fund, and certain special revenue funds are included in the annual budget ordinance. Project length financial plans are adopted for those projects that are expected to require more than a fiscal year for completion. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level in the General Fund and the special revenue funds. The County also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end, however, encumbrances generally are re-appropriated as part of the following year's budget. As demonstrated by the statements and schedules included in the financial section of this report, the County continues to meet its responsibility for sound financial management.

**Cash Management.** Cash temporarily idle during the year was invested in demand deposits, certificates of deposit commercial paper, federal and State government securities, banker's acceptances or the North Carolina Capital Management Trust (a money market mutual fund established for North Carolina local governments). At all times, consideration was given to earning the highest yields on investments while maintaining the safety and liquidity of those monies.

Interest earned on investments, in all funds of the primary government, was \$731,099 for the year. The investment yield on the portfolio for the year was 1.57% as compared to 2.40% last year. The cash and investment portfolio balance at June 30, 2003, was \$39.3 million, compared to \$49.7 million at June 30, 2002. The decrease in the ending balance was due to the reduction in unspent bond proceeds from the \$28 million school bond sold in May 2002. The average daily portfolio balance this fiscal year was \$47.6 million or \$13.6 million higher than last year due to the unexpended bond proceeds from the 2002 school bond. The County portfolio at June 30, 2003 was composed of the following mix: State agencies 43%, certificate of deposits 33%, demand deposits 9%, federal agencies 8%, and North Carolina Capital Management Trust 7%.

**Risk Management.** Craven County provides protection from liability and casualty risks through a combination of partially self-funded programs, joint risk management pools and commercial coverage. The County chose in 1990 to enter into a self-funded health insurance program, with administrative services provided through a contract administrator. The County uses an internal service fund to account for the self-funded health insurance. The past year claims payments were lower by \$100,000 than the previous year. This resulted in the health insurance plan ending the year with a \$173,000 net income. Risk to the County is restricted by a specific stop-loss limit of \$75,000 per individual per year. This protection is provided through coverage acquired from a commercial underwriter. The County established a reserve of \$255,000 for incurred but not reported claims at June 30, 2003.

During fiscal 2003, the County continued its participation in the risk management pool operated by the North Carolina Association of County Commissioners for liability and property coverage. As a result of proposed increases of 40% in premiums, the County chose to contract with a third-party administrator for workers' compensation claims and self-insure the coverage beginning in fiscal 2003. The contract for the year ended June 30, 2003 provided individual loss limits of \$250,000 and aggregate limits established at \$569,000. The workers' compensation fund ended the year with a cash balance of \$322,000 available for future claims. Flood insurance on the convention center building, the only County building located in a flood zone, was obtained through a commercial carrier.

## OTHER INFORMATION

**Awards.** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a certificate of Achievement for Excellence in Financial Reporting to the County of Craven for its comprehensive annual financial report for the fiscal year ended June 30, 2002, the thirteenth consecutive year this award was received. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA.

**Independent Audit.** Under Section 159-34 of North Carolina General Statutes, the County is required to provide for an annual audit by an independent certified public accountant. The accounting firm of McGladrey and Pullen, LLP, CPAs, was selected by the County to perform this audit. McGladrey & Pullen, LLP audited the Financial Section and reported on the County's compliance with federal and state award programs contained in the Compliance section

**Acknowledgments.** The preparation of the comprehensive annual financial report was made possible by the entire Craven County Finance Department: Linda A. LeDrew, Assistant Finance Officer, Carolyn Mattocks, Mary Ann Harper, Rosie Brinson, Andrea Brookins, Rosemary Osterhus, Donna Nelson, Patricia McDaniel and Aletta Brown. Also of significant assistance in the preparation of the report were Charles Smith, Brian Dunn, and Jerry Cox of McGladrey & Pullen, LLP.

The information presented in this report illustrates the progressive leadership and support provided by the Craven County Board of Commissioners. Without the Board's guidance and initiative, the financial activities of Craven County would not be able to operate in a fiscally stable and responsible manner.

Respectively submitted,

Harold Blizzard

Rick Hemphill

County Manager

Finance Officer